Executive Summary

The Economic Impacts of CalPERS Pension Payments in 2010

For nearly 80 years the California Public Employees' Retirement System (CalPERS) has provided a secure retirement for millions of public employees. As a defined benefit pension plan with almost 2,300 staff members, the fund currently manages retirement and other benefits for more than 1.6 million active and retired public servants and their families and more than 3,000 California public employers.

CalPERS fulfills its primary mission by investing funds contributed by employees and employers then managing the investment earnings to make sure benefits are paid. Over the last 20 years CalPERS has earned an average annual rate of return of 7.9 percent. That level of investment return means that during that same two decade period earnings have accounted for more than 64 percent of the cost of payments paid in 2010 to beneficiaries. The employer share of the cost of pension benefits amounted to 21 percent and the employee share 15 percent over that same period.

In 2010 CalPERS paid nearly $12 billion in benefits to more than 500,000 retirees, beneficiaries, and survivors. Approximately 86 percent of those annuitants live in California and spend their monthly income in the state's 58 counties. Those retired public employees and their beneficiaries are a little more than one percent of the population of California.

This study looks at the economic impact of benefit payments in 2010 to the 431,373 California resident CalPERS retirees and beneficiaries. Those payments to California residents totaled $11,565,547,065. The analysis of CalPERS benefit payments reveals that one consequence of the system's steady performance over the years is the ancillary benefit of growing and sustaining the California economy. The dollars spent by CalPERS retirees have become a significant economic engine in most California communities.

Statewide the 2010 CalPERS benefit payments stimulated more than $26 billion in total economic activity. That economic activity increased the gross state product in 2010 by more than $8.6 billion. And all that economic activity supported more than 93,600 California jobs during a tough year for employment.

The increase in total economic activity is a result of the economic multiplier effect. When dollars are spent in a community each direct expenditure results in indirect and induced impacts, which then cause those dollars to stimulate further economic activity. Statewide every dollar paid to a CalPERS beneficiary results in $2.26 in economic activity, which we call a multiplier of 2.26 for every dollar.

Because almost 80 percent of those dollars spent by beneficiaries comes from contributions by retirees and from CalPERS earnings on investments, the value of employer contributions have an enhanced benefit on the state economy. When you take into account the money earned from investments on the contributions made by employers and employees it means that each dollar paid into CalPERS by an employer resulted in $10.79 worth of economic activity when it was paid out in benefits during 2010.

CalPERS is the largest public employee pension fund in the country with more than $237 billion in assets under management as of June 1, 2011. The average CalPERS retiree leaves public service at 60 years old after more than 20 years on the job. The average monthly CalPERS benefit in California in 2010 was $2,236 based on this study of 431,000 beneficiaries. Collectively those benefit payments add up to a significant investment in the California economy.

2010 Benefit Payments Impact Study Key Findings

- Direct CalPERS retirement payments to California residents in 2010 totaled $11.566 billion. Those payments resulted in a ripple effect throughout the economy that caused an additional $14.615 billion in induced business revenue for a total of more than $26.181 billion in California economic activity from CalPERS retirement payments.

- The $26.181 billion in local economic activity generated by CalPERS payments is greater than the combined impact of three fast growing universities which have released recent data: University of California San Francisco ($6.2 billion), University of California San Diego ($4.7 billion) and University of California Irvine ($4.2 billion).

- The economic activity generated by CalPERS retirement payments supported 93,651 California jobs in 2010 with a total compensation of $4.795 billion.

- If you compare the jobs generated by CalPERS retirement payments with industries, the payments accounted for more jobs than the internet publishing, livestock production, and paper manufacturing economic sectors combined.

- The CalPERS retirement payments and ripple effects stimulated economies throughout California and increased the statewide Gross Regional Product by $8.635 billion in 2010. This is value added or new dollars generated in the economy. That amounts to almost a half of a percent increase in California's $1.875 trillion economy.

- If you compare CalPERS' impact on the gross state product with industries it is greater than the impact of the broadcasting, oil and gas extraction, air transportation, building and garden supply, and many other sectors of the California economy in 2009 (last year with available data).

- The economic activities stimulated by CalPERS retirement payments resulted in the generation of $1.041 billion in state and local taxes during 2010, almost $620 million of that was in property and sales tax measurable at the county level.

- On average each taxpayer dollar directly invested in CalPERS by local and state governments generated a return on investment when benefits were paid in 2010 of $10.79 of activity in the California economy. This return on taxpayer investment is the result of a long history of solid risk adjusted returns and the contributions of CalPERS members together accounting for almost 80% of the amount paid in benefits.

- Every California County benefits from CalPERS retirement payments. In larger urban counties impact is greatest on the total dollar amount of gross regional product. In smaller, rural counties the percentage increase in the gross regional product is greatest.

- CalPERS payments have a positive impact on jobs throughout the state and in 17 counties they supported more than one percent of the total jobs in their communities.

- When looked at across California's nine regional economies, CalPERS benefit payments have a proportionally more dramatic impact on rural and mountain regions with Central Sierra Region (7 counties) having the greatest impact of payments on gross regional product and employment.

Benefit Payments Compare to Industries in Supporting Jobs and Increasing Economic Activity

The direct payments to CalPERS beneficiaries has a significant impact on the California economy including job creation and increasing economic activity. While these payments do not constitute a separate industrial sector as established by the North American Industry Classification System (NAICS), the benefit payments have an impact on job creation similar to many industry sectors.

The employment resulting from CalPERS benefit payments in 2010 is comparable to major NAICS sectors of economic activity. CalPERS' benefits helped support more than 93,600 of California's jobs in 2010, comparable in magnitude to classifications counted in the previous year including courier and messenger services, rental and leasing services, publishing, chemical manufacturing and warehousing.

And the number of jobs supported by CalPERS retirees' expenditures is even greater than the jobs supported by many very well known industrial sectors of the economy. For example, air transportation has about 44,000 jobs, broadcasting about 52,000 jobs, and utilities about 61,000 jobs.

When the total value added by CalPERS benefit payments in 2010 is compared to the gross state product the impact on the economy is greater than or equal to the impact of several large NAICS sectors including machinery manufacturing and personal care stores.

Benefit Payments Positively Impact Economy in Every California County

CalPERS annuitants live in all of California's 58 counties. And each county benefits from CalPERS pension payments. Every benefit dollar sent by CalPERS to a resident of a California county increases the economic activity in that county.

In 32 counties benefit payments result in total revenues greater than $100 million per year. Los Angeles has the greatest total local economic impact from CalPERS payments with $3,062,343,796 in activity from 2010 payments.

In 39 counties the payments stimulate an increase in the gross county product of more than one percent annually. Sierra County has the highest ratio of pension payments to gross regional product with a 7.74 percent increase resulting from 2010 CalPERS benefit payments.

And in 17 California counties CalPERS 2010 benefit payments supported more than one percent of the jobs in those counties. The greatest ratio of jobs supported to total employment in a county was 1.7 percent in Lassen County with Tuolumne and Amador Counties close behind at 1.6 percent.

The greatest total economic impact occurs in the counties with the largest populations because they have the largest number of CalPERS beneficiaries. The greatest relative economic benefit from CalPERS payments is seen in counties with smaller populations. Whether looking at job creation or Gross Regional Product (GRP) it is usually the smaller population rural counties along the northern and eastern borders of the state that have the greatest relative positive impact on the economy from CalPERS benefit payments.

The primary exception to this is Sacramento County with a very high proportion of CalPERS annuitants it falls in the top tier in all categories of analysis. Sacramento has the second highest total economic impact after Los Angeles. Yet it is in the top 13 counties with a job creation ratio of 1.1 percent and in the top 19 counties with a ratio of payments to GRP of 2.47%.

Benefit Payments Positively Impact the Nine Regional Economies in California

While CalPERS beneficiaries may live in cities and counties the realities of economic activity are that expenditures are made and have economic impacts over a wider area. This analysis of CalPERS benefit payments in 2010 examines both a statewide impact as well as the impact on California's nine regional economies. The value of a regional analysis is that it captures a more complete picture of how expenditures are really made.

Because only a portion of expenditures made by businesses or people within any jurisdiction are made in that area, a bigger economic unit retains a greater proportion of the expenditures made by those within their jurisdiction. The multiplier effect demonstrates this. The statewide California multiplier for 2010 CalPERS benefit payments is 2.26, or $2.26 for every CalPERS dollar sent to a beneficiary in California. Smaller units within the state capture smaller portions of the dollars within their jurisdiction and have smaller multipliers.

County multipliers range from 1.28 for Alpine County to 2.01 for Los Angeles County. Larger counties tend to capture some of the expenditures from smaller nearby counties and therefore retain more of the value added from pension payments. The same is true of regions where the largest region – Southern California has a multiplier of 2.02, slightly greater than that of the county of Los Angeles at its heart. The Central Sierra region, which contains Alpine and six other smaller counties,

Pension Payments and Local Revenue Economic Impact Multipliers from CalPERS Pension Payments in 2010

	Pension Payments to California Addresses	Induced Economic Impacts	Total Revenue Economic Impacts	Pension Payments Multiplier
California	$11,565,547,065	$14,615,125,354	$26,180,672,419	2.26
Regions				
Southern California (5 Counties)	$3,600,981,952	$3,680,000,000	$7,280,981,952	2.02
Bay Area (10 Counties)	$2,499,928,883	$2,000,882,414	$4,500,811,297	1.80
Greater Sacramento (6 Counties)	$2,084,162,175	$1,910,023,596	$3,994,185,771	1.92
San Joaquin Valley (8 Counties)	$1,162,096,399	$1,107,330,235	$2,269,426,634	1.95
Southern Border (2 Counties)	$673,775,704	$590,748,579	$1,264,524,283	1.88
Central Coast (4 Counties)	$539,526,463	$449,000,000	$988,526,463	1.83
Northern California (11 Counties)	$424,365,658	$326,637,415	$751,003,073	1.77
Northern Sacramento Valley (5 Counti	$373,495,304	$322,056,327	$695,551,631	1.86
Central Sierra (7 Counties)	$207,214,527	$130,000,000	$337,214,527	1.63

TABLE 1: ***Regional Pension Multipliers***

has a multiplier of 1.63. But among the other regions there is greater variation with regions like San Joaquin Valley and Northern Sacramento Valley retaining higher portions of their payments than might be expected.

Data and Methodology

The data for this analysis comes from two sources: the California Public Employees' Retirement System (CalPERS) report of retirement benefit payments by California counties in December, 2010 and from the IMPLAN version 3.0 update in August, 2010. Since the 1970s the IMPLAN input-output model has become a standard tool for economic assessment and modeling (visit www.implan.com for more information).

This input-output model uses U.S. Bureau of Labor Statistics data from 2009 as well as other federal data sources. This was the most up to date data available at the time the analysis was initiated and over the years these sources have come to be the standard data sets for calculating economic impact measures for pension funds and other inputs.

This study is a snapshot of the economic "footprint" created by the CalPERS pension benefits paid to California annuitants in 2010. Any expenditure made in a local, regional or national economy has what is usually referred to as a "multiplier effect" on the activity within that economy. That increase in revenue not only provides an immediate boost to the economy as it arrives in the accounts of pension recipients and is spent at local businesses, but over time it generates more local income through a "ripple effect" as secondary and tertiary economic actors then spend the added revenue they have received.

With the increase in revenues businesses then will spend more money in the local economy to increase production, possibly hiring additional workers, and fueling further growth in the local economy. Each round of economic activity generates additional revenue. As funds circulate through the economy jobs are created, incomes, total output and tax revenues expand, and the economy grows even more. An input-output model depicts these economic flows in a regional economy created by a change in payments by any sector within that economy. That data allows us to measure the gross impact on that economy during the period of the original payments.

Researchers and Authors

This study is another in a series of pension fund economic impact studies overseen by Dr. Robert Fountain, Professor Emeritus at California State University, Sacramento. He is the founder of the CSUS Applied Research Institute and the Sacramento Regional Research Institute. He is currently the director of Regional Economic Consultants based in Benicia, CA. He holds a Ph.D. in Urban Land Economics from UCLA and his expertise includes economics, land use, financial planning, modeling, and forecasting.

Dr. Fountain coordinated all of the research and is the principal author of the study. He was assisted in writing and editing the study by Michael W. Perri, the director of the Benefits Research Group at Lincoln Crow Strategic Communications. Perri is a former journalist with policy experience in employee benefits, pensions, health care, water, land use, education, and public finance.

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